

Message Text

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ACTION ARA-14

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/041 W

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FM AMEMBASSY QUITO
TO SECSTATE WASHDC 5221

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E.O. 11652: N/A
TAGS: EFIN EC
SUBJ: FINANCE MINISTRY ATTEMPTING TO REPLACE FONADE ACCOUNT WITH
SELF-SUSTAINING STATE DEVELOPMENT BANK

1. FINANCE MINISTER SANTIAGO SEVILLA HAS ANNOUNCED THAT THE
FONADE ACCOUNT (THE NATIONAL DEVELOPMENT FUND) WILL BE
ABOLISHED AND REPLACED BY A STATE DEVELOPMENT BANK. THE
MINISTER EXPLAINED TO THE PRESS THAT "CERTAIN IRREGULARITIES"
HAD BEEN DISCOVERED IN THE FUND'S MANAGEMENT, AND THE FUND'S
POLICY OF SUPPLYING GRANTS TO VARIOUS AGENCIES HAD EXHAUSTED
ITS RESOURCES. THE MINISTER'S ANNOUNCEMENT HAS TOUCHED OFF
CRITICISM AND SPECULATION IN THE PRESS REGARDING THE
"IRREGULARITIES" IN THE FUND'S MANAGEMENT.

2. THE FONADE ACCOUNT WAS ESTABLISHED IN 1973, SHORTLY
AFTER THE GOE BEGAN REALIZING SUBSTANTIAL PETROLEUM EXPORT
REVENUES. 25 PERCENT OF TOTAL PETROLEUM REVENUES WERE EARMARKED FOR
THE FUND. RESOURCES WERE TO BE USED EXCLUSIVELY FOR
DEVELOPMENTAL PURPOSES. HOWEVER, THE FUND'S RESOURCES HAVE
BEEN FREQUENTLY USED TO COVER CENTRAL GOVERNMENT OR OTHER
AGENCY DEFICITS. IT HAS BECOME A PASS-THROUGH ACCOUNT
FOR GOE OFFICIALS WISHING TO OBFUSCATE MILITARY
EXPENDITURES; AND DEVELOPMENT PROJECTS HAVE NOT
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ALWAYS BEEN SELECTED ON THE BASIS OF OBJECTIVE CRITERIA.
THE MINISTRY OF FINANCE AND CEPE HAVE RECENTLY BATTLED
REGARDING FONADE'S PAYMENT OF \$110 MILLION FOR THE
ESMERALDAS REFINERY; CEPE HAS REFUSED TO REIMBURSE THE
ACCOUNT FOR THE FUNDS, CLAIMING (PROBABLY CORRECTLY)
THAT THE PRICE OF REFINED PRODUCTS DOES NOT ALLOW THE
REFINERY ANY PROFIT MARGIN.

3. HUGO AMORES, NATIONAL TREASURER AND CONFIDANTE OF FINANCE MINISTER SEVILLA, EXPLAINED TO AN EMBOFF THAT THE MINISTER WISHES TO PUT FONADE ON A SELF-FINANCING BASIS. THIS NEW POLICY HAS CAUSED CONSIDERABLE CRITICISM FROM GOE AGENCIES AND MUNICIPALITIES WHO PREVIOUSLY RECEIVED GRANTS FROM THE ACCOUNT. HE COMMENTED THAT SEVILLA ENVISIONS A DEVELOPMENT BANK WITH A COMPETENT TECHNICAL STAFF THAT WILL MAKE LOANS AT THE INTEREST PAID BY THE CENTRAL GOVERNMENT IN THE INTERNATIONAL MARKET. AT LEAST, HE SAID, THIS NEW POLICY WILL PREVENT WHAT HAD BEEN FREQUENT GIFTS FOR MUNICIPAL FOUNTAINS AND OTHER PROJECTS OF DUBIOUS VALUE.

4. AMORES SAID THAT HE PLANNED TO PRESENT THE NEW BY-LAWS FOR THE STATE BANK (BANCO DEL ESTADO) AT THE NEXT CABINET MEETING, AND EXPECTS SOME DIFFICULTY IN OBTAINING APPROVAL.
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Message Attributes

Automatic Decaptioning: X
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Control Number: n/a
Copy: SINGLE
Sent Date: 28-Jul-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
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Executive Order: N/A
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Expiration:
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Handling Restrictions: n/a
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TAGS: EFIN, EC, (SEVILLA LARREA, SANTIAGO)
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